

# London Borough of Barnet Pension Fund

Q2 2023 Investment Monitoring Report

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Executive Summary

Fund assets totalled c.£1,502m at the end of Q2 2023, an increase of c.£30.1m from the end of the previous quarter.

The Fund's assets returned 1.8% (net of fees) over the quarter, underperforming the benchmark by c.0.7%.

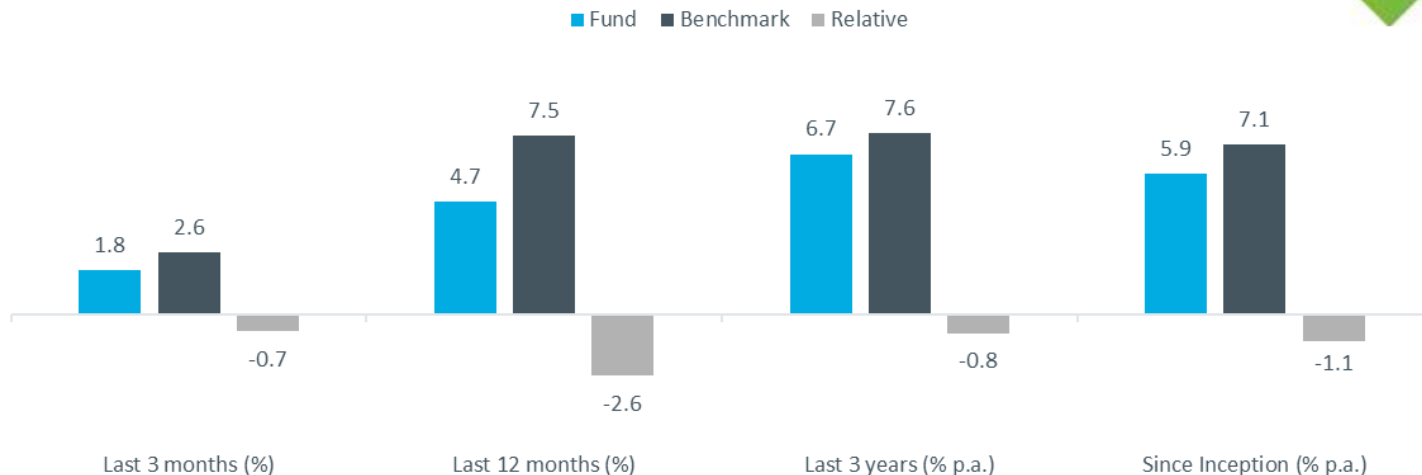
Key Actions

The following transitions took place over the quarter:

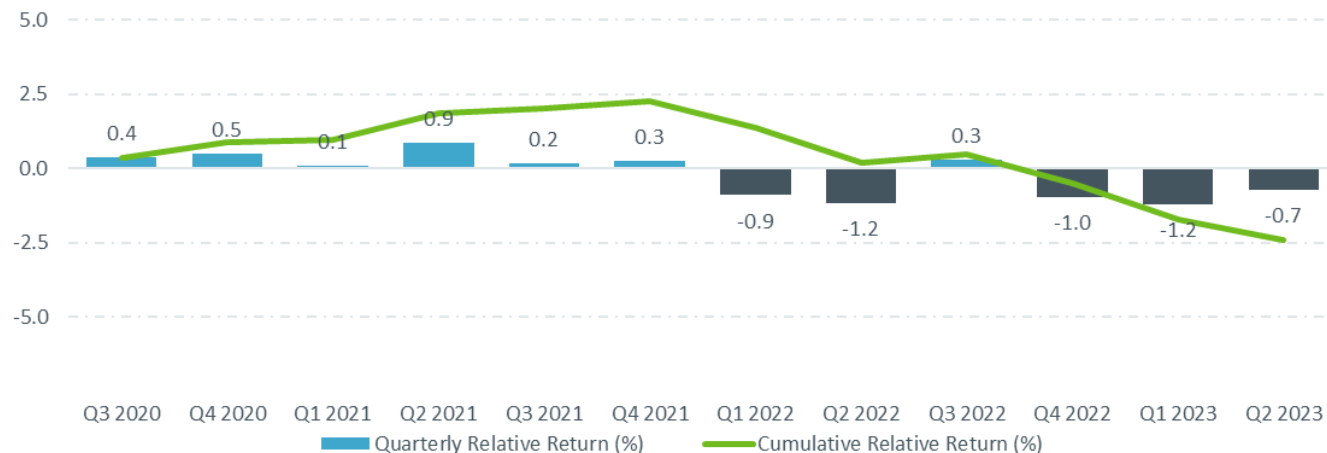
- An investment of c.£18.5m into the Pemberton Trade Finance fund.

Over the quarter the following funds continued to call capital from the Fund's commitments: Adams Street Global 2019, Adams Street Global Secondaries, LCIV Private Debt, LCIV Renewable Infrastructure, and Barings Global Special Situations Credit.

Historic quarterly performance (net of fees)



Relative quarterly and relative cumulative performance 3yr (net of fees)



## Asset allocation

Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q1 2023	Q2 2023			
LGIM RAFI Carbon Pathway Index GBP Hdgd	193.2	203.3	13.5%	10.0%	3.5%
LGIM Future World Global Equity Index	170.1	176.3	11.7%	10.0%	1.7%
LGIM Future World Global Equity Index GBP Hdgd	224.7	239.2	15.9%	15.0%	0.9%
LCIV Sustainable Exclusion Global Equity	39.7	39.6	2.6%	5.0%	-2.4%
LCIV Emerging Markets Equity	67.3	65.5	4.4%	5.0%	-0.6%
Adams Street 2019 Global	53.1	54.0	3.6%	5.0%	-0.6%
Adams Street Global Secondaries	11.6	12.7	0.8%		
<b>Total Growth</b>	<b>759.6</b>	<b>790.8</b>	<b>52.7%</b>	<b>50.0%</b>	<b>2.7%</b>
IFM Global Infrastructure	98.2	98.9	6.6%	5.0%	1.6%
LCIV Renewable Infrastructure	17.9	20.8	1.4%	3.0%	-1.6%
Standard Life Long Lease Property	26.8	26.5	1.8%	2.0%	-0.2%
CBRE Global Alpha	31.9	31.9	2.1%	2.0%	0.1%
FREOF V	27.6	26.7	1.8%	2.0%	-0.2%
Barings Multi-Credit	39.0	39.7	2.6%	3.5%	-0.9%
LCIV MAC	60.2	61.4	4.1%	3.5%	0.6%
Insight Secured Finance	91.8	94.2	6.3%	6.0%	0.3%
Schroder All Maturities Corporate Bond	117.1	112.1	7.5%	10.0%	-2.5%
Alcentra Direct Lending	13.0	13.0	0.9%	1.5%	-0.6%
Partners Group MAC 2015	4.1	3.3	0.2%	0.0%	0.2%
Partners Group MAC 2017	13.1	10.5	0.7%	1.0%	-0.3%
Partners Group MAC V	29.3	28.9	1.9%	4.5%	-2.6%
LCIV Private Debt	41.8	43.3	2.9%	4.0%	-1.1%
Barings Global Special Situations Credit	35.5	35.5	2.4%	2.0%	0.4%
<b>Total Income</b>	<b>647.3</b>	<b>646.7</b>	<b>43.1%</b>	<b>50.0%</b>	<b>-6.9%</b>
Allianz Trade Finance	18.5	18.6	1.2%	0.0%	1.2%
Pemberton Trade Finance	0.0	18.8	1.2%	0.0%	1.2%
Cash	46.2	26.9	1.8%	0.0%	1.8%
<b>Total Fund</b>	<b>1,471.6</b>	<b>1,501.7</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

The Q2 23 valuation for Alcentra Direct Lending, Adams Street, CBRE Global Alpha and Barings Global Special Situations are as at Q1 23, due to a lag applied by the manager. Where applicable the valuations are adjusted for cash movements post quarter end.

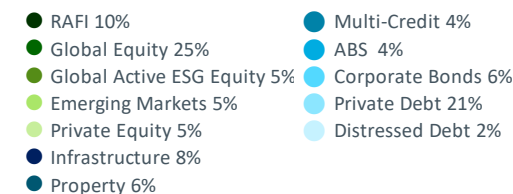
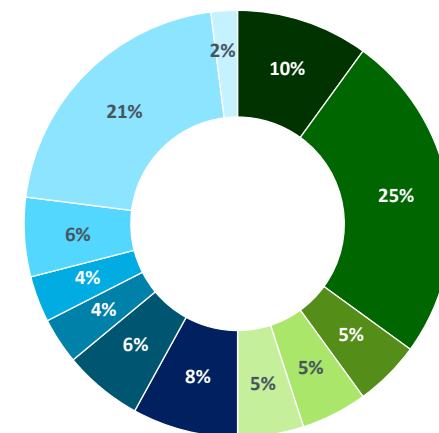
Following strategic decisions agreed in the May 2023 meeting, the Officers have begun implementing the agreed de-risk of 20% of assets from Growth (equity) to Income (bonds). The de-risk is being implemented in a phased manner over Q3.

It should be noted the benchmark allocations used are the existing allocations and have not been updated to reflect the proposed strategy agreed in May. The updated target allocation will be reflected in the Q3 2023 report.

The Officers have developed a Cash management policy to address the high cash balance.

The allocation chart shows a diverse range of assets invested across Growth and Income mandates.

## Strategic allocation



## Manager performance (net of fees)

The table shows a summary of the Fund performance, net of investment management fees, over selected time periods.

### Benchmark Indicator

- ◆ Market-based
- Cash-based / Absolute return

Details of the managers' benchmarks can be found in the Appendix.

### 'UNDER THE SPOTLIGHT':

To focus discussion, the contents of the remaining slides relate to a selection of funds whose performance is of particular interest this quarter:

LCIV Sustainable Exclusion	P6
Adams Street	P7
Standard Life Long Lease	P8
Fiera FROEF V	P9
Barings Global Special Sits	P10
Trade Finance (Allianz & Pemberton)	P11
Market Background	P12
Appendix	P14

*The Q2 23 performance for Alcentra Direct Lending, CBRE and ASP, are as at Q1 23, due to a lag applied by the manager. Hymans Robertson estimate the performance numbers for Alcentra Direct Lending, Adams Street Partners 2019 Global, Adams Street Partners Global Secondaries, LCIV Renewable Infrastructure, LCIV Private Debt, IFM Global Infrastructure and Barings Global Special Situations Credit mandates. As such these may differ to the managers' net IRRs.*

		Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
		Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
<b>Growth</b>													
LGIM RAFI Carbon Pathway Index GBP Hdgd	◆	5.2	5.1	0.2	15.5	15.0	0.4	15.9	15.6	0.3	8.5	8.4	0.1
LGIM Future World Global Equity Index	◆	3.7	3.6	0.1	12.0	11.7	0.2	-	-	-	6.5	6.3	0.2
LGIM Future World Global Equity Index GBP Hdgd	◆	6.5	6.4	0.1	15.4	15.2	0.2	-	-	-	3.9	3.8	0.2
LCIV Emerging Markets Equity	◆	-2.6	-1.9	-0.8	3.8	-2.8	6.8	3.1	1.3	1.7	3.9	1.7	2.2
LCIV Sustainable Exclusion Global Equity	◆	-0.1	3.9	-3.8	0.9	13.2	-10.9	-	-	-	-1.7	5.6	-7.0
Adams Street 2019 Global	◆	-	-	-	-	-	-	34.6	20.5	11.7	36.4	12.8	20.9
<b>Income</b>													
IFM Global Infrastructure	■	0.8	1.9	-1.2	7.7	8.0	-0.3	12.7	8.0	4.3	12.8	8.0	4.5
LCIV Renewable Infrastructure	■	-1.1	1.7	-2.7	33.0	7.0	24.3	-	-	-	17.6	7.0	9.9
Standard Life Long Lease Property	◆	-0.8	-4.9	4.3	-24.1	-12.3	-13.5	-2.9	-9.5	7.3	-0.9	-4.0	3.2
CBRE Global Alpha	■	-	-	-	3.3	9.0	-5.2	6.2	9.0	-2.6	5.0	9.0	-3.6
FROEF V	■	-3.0	2.9	-5.7	-5.5	12.0	-15.6	-	-	-	0.5	12.0	-10.3
Barings Multi-Credit	■	1.9	2.2	-0.3	6.2	7.5	-1.2	3.3	6.0	-2.5	2.9	5.8	-2.7
Insight Secured Finance	■	2.5	2.1	0.4	5.4	7.2	-1.7	4.9	5.2	-0.3	3.2	5.0	-1.7
Schroder All Maturities Corporate Bond	◆	-4.2	-3.4	-0.9	-8.6	-7.1	-1.6	-6.6	-6.2	-0.4	3.4	3.1	0.3
Alcentra Direct Lending	■	0.9	1.7	-0.8	1.1	7.0	-5.5	5.4	7.0	-1.5	5.4	7.0	-1.5
Partners Group MAC 2015	■	-5.5	1.4	-6.8	-7.5	6.5	-13.2	-0.5	5.5	-5.7	6.3	5.4	0.9
Partners Group MAC 2017	■	1.8	2.1	-0.3	6.9	7.2	-0.3	5.7	5.8	0.0	4.6	5.5	-0.9
Partners Group MAC V	■	2.5	2.1	0.4	7.3	7.2	0.1	5.7	5.8	0.0	5.1	5.6	-0.5
LCIV Private Debt	■	-1.2	1.5	-2.6	11.0	6.0	4.7	-	-	-	6.6	6.0	0.6
LCIV MAC	■	1.8	2.2	-0.4	-	-	-	-	-	-	4.1	5.0	-0.8
Barings Global Special Situations Credit	■	2.3	3.3	-0.9	3.1	13.8	-9.4	-	-	-	11.8	13.8	-1.7
Allianz Trade Finance	■	0.7	1.6	-0.9	-	-	-	-	-	-	0.6	1.6	-0.9
Pemberton Trade Finance	■	1.4	2.1	-0.7	-	-	-	-	-	-	1.4	2.1	-0.7
<b>Total</b>		<b>1.8</b>	<b>2.6</b>	<b>-0.7</b>	<b>4.7</b>	<b>7.5</b>	<b>-2.6</b>	<b>6.7</b>	<b>7.6</b>	<b>-0.8</b>	<b>5.9</b>	<b>7.1</b>	<b>-1.1</b>

Source: Fund performance provided by Investment Managers and is net of fees. Benchmark performance provided by Investment Managers and DataStream. Please note the Fund has a substantial amount of transitions activity over the quarter, which was a period of heightened market volatility. Reasonable endeavours have been made to ensure the performance data is accurate. However, there may be a lower level of accuracy in the performance data, as a result of this significant increase in transition activity.

Consensus forecasts for 2023 global GDP growth saw further upwards revisions in Q2, given unexpected resilience in labour markets and consumer spending. Nonetheless, with higher interest rates likely to weigh on consumer and business activity in the second half of 2023 and into 2024, growth forecasts remain relatively weak.

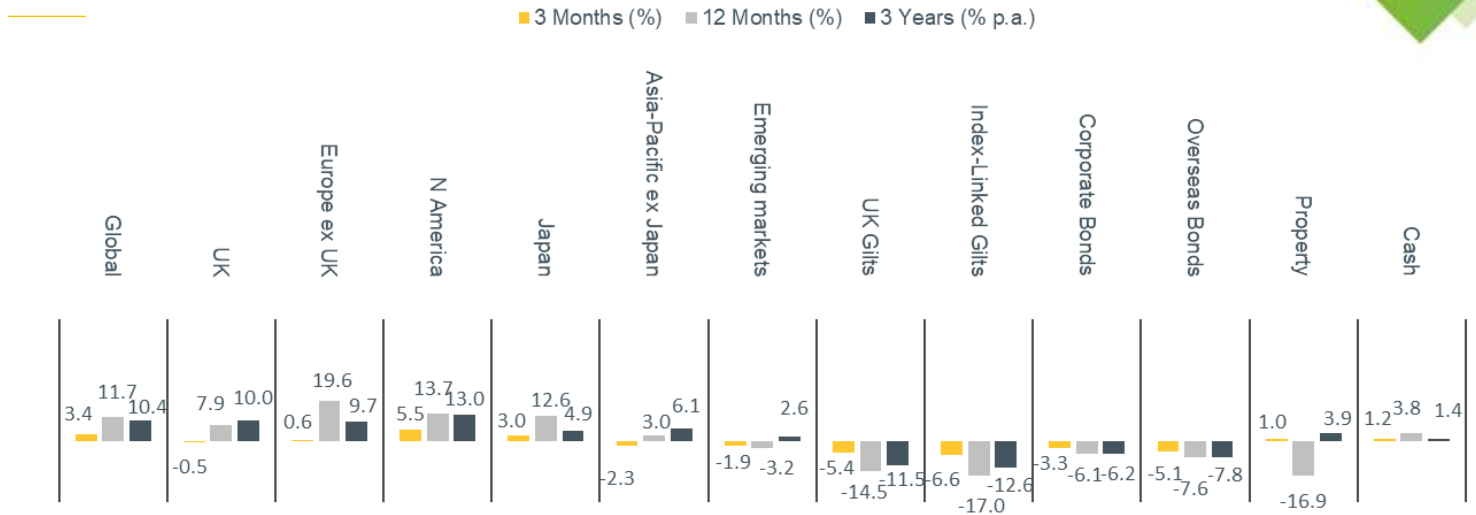
UK inflation data released during Q2 came in higher than forecasters expected. However, June's UK headline CPI inflation figure, released in July, fell more than expected, to 7.9% year-on-year and core inflation slipped back to 6.9% from 7.1%. Equivalent CPI inflation in the US and Eurozone fell to 3.0% and 5.5%, respectively, in June, and core inflation eased to 4.8% in the US, but rose to 5.5% in the Eurozone.

Responding to a run of higher-than-expected inflation, the Bank of England (BoE) raised rates by 0.75% p.a. in Q2, to 5.0% p.a., including a surprise 0.5% p.a. increase in June. The US Federal Reserve raised rates by 0.25% p.a., to 5.25% p.a., in May; pausing in June to evaluate the impact of prior tightening. The European Central Bank increased their deposit rate 3.5% p.a.

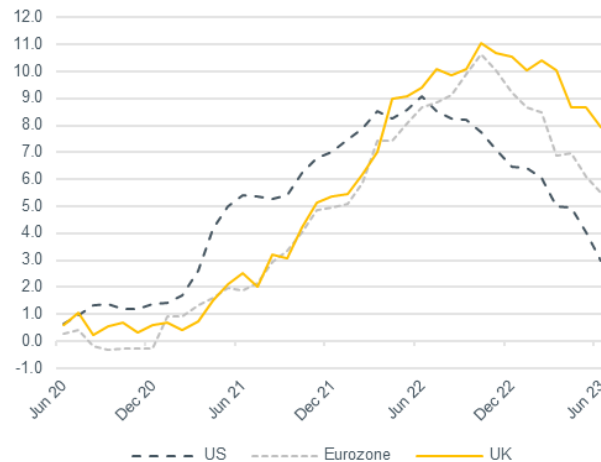
UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, was unchanged at 3.6% p.a., as real and nominal yields rose by similar amounts.

UK gilt yields surged as disappointing inflation data was compounded by heavy issuance and BoE gilt sales. UK 10-year gilt yields rose sharply by 0.8% p.a. to 4.4% p.a., while US yields rose 0.2% p.a. to 3.8% p.a., and equivalent German yields rose 0.1% p.a., to 2.4% p.a.

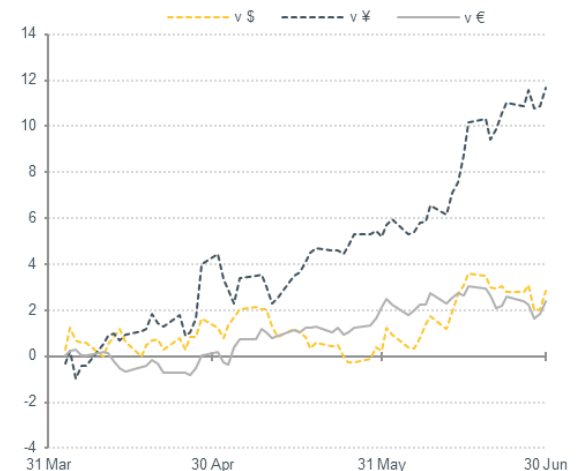
## Historic returns for world markets <sup>[1]</sup>



## Annual CPI Inflation (% p.a.)



## Sterling trend chart (% change)



Source: DataStream. <sup>[1]</sup>Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, ICE BofA Global Government Index, MSCI UK Monthly Property; UK Interbank 7 Day

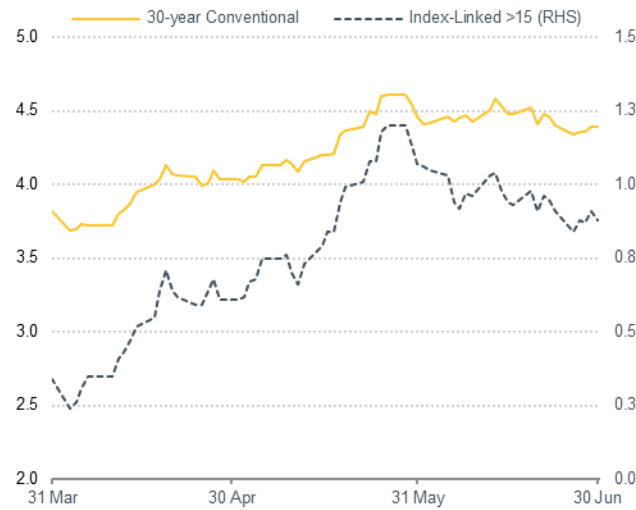
The UK investment-grade credit market recorded negative total returns as the rise in underlying gilt yields more than offset a fall in credit spreads. Global investment-grade credit spreads decreased by 0.1% p.a. to 1.4% p.a., and global speculative-grade credit spreads decreased by 0.5% p.a. to 4.5% p.a.

The FTSE All World Total Return Index rose 6.7%, buoyed by better-than-expected earnings and AI-inspired optimism around the technology sector. Japanese and North American equities outperformed, with the exporter-heavy index of the former benefitting from Yen weakness and the latter benefitting from its disproportionately high exposure to the technology sector. Disappointing Chinese activity data dragged down emerging markets and Asia Pacific ex-Japan. The UK was the worst performing region, as the basic materials and energy sectors underperformed amid commodity price declines and global manufacturing weakness.

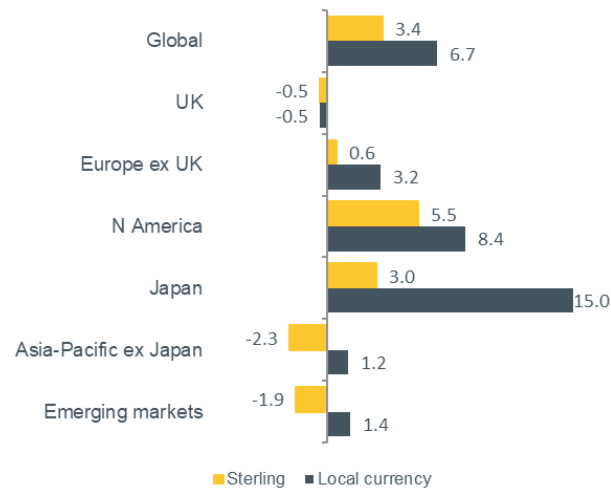
Sterling rose over 4.0% in trade-weighted terms as interest rate expectations soared. Meanwhile, equivalent US and euro measures rose 0.8% and 2.1%, respectively, while the yen measure fell more than 5%. The S&P GSCI Commodity Spot Price Index fell 5.8% in Q2, driven by declines in energy and industrial metal price.

UK commercial property values, as measured by the MSCI UK Property Index, had fallen by over 21% in the 12 months to end-June. Capital values have somewhat stabilised in recent months, though office values continued to decline in June. Alongside income, this led to a modest positive total return from the market over the quarter.

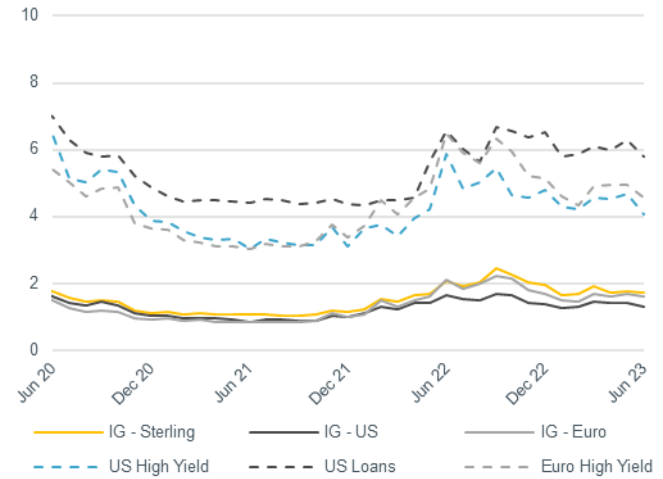
## Gilt yields chart (% p.a.)



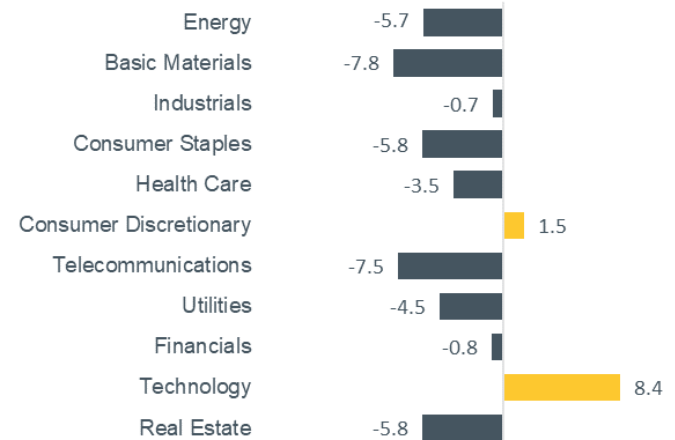
## Regional equity returns [1]



## Investment and speculative grade credit spreads (% p.a.)



## Global equity sector returns (%) [2]



Source: DataStream, Barings, ICE [1] FTSE All World Indices. Commentary compares regional equity returns in local currency. [2] Returns shown in Sterling terms and relative to FTSE All World.

## Risk warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

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## Geometric v arithmetic performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + \text{Fund Performance})}{(1 + \text{Benchmark Performance})} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

## Hymans Rating

Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

## Responsible Investment

Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.